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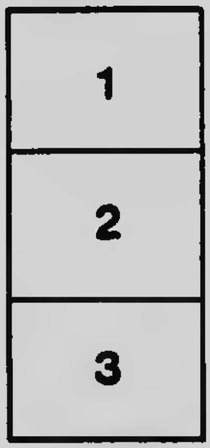

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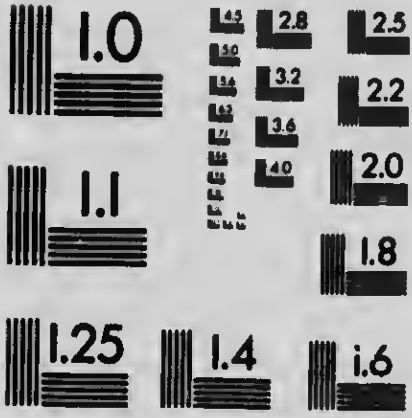

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The High Cost of Living

and

Its Remedy

By

Walter Russell Morson

TORONTO

1913

PREFACE

THIS short treatise on prices and their relation to wages is written with a strong desire to view the subject from a practical standpoint.

Most economists are claiming that present high prices are due, or chiefly due, to the increased production of gold. This theory the writer shows, at least to his own satisfaction, to be an absolute absurdity.

While it has been necessary to introduce into the book a certain amount of theory, it has been the writer's object to reduce it to a minimum.

If any good should come of this small work, the writer's principal desire is that it should benefit the working man. It is believed that rich and poor are, for the most part, united in this desire;—the only question they ask is: how can it be accomplished?

WALTER RUSSELL MORSON

HIGH PRICES

A long continuance of high prices for food and materials of all kinds suggests that one must look beyond the limits of conventional economics to find the cause.

Economists, professional and amateur, have exploited many theories, among which we have noticed the following:—

1. Increased production of gold.
2. Monopolies and combines.
3. Excessive middlemen's profits.
4. Wasteful consumption.
5. Protection.
6. Heavy armaments of the nations.
7. Stock and land speculation.
8. Stock watering.
9. Want of good roads on which to carry farmers' produce.
10. High cost of transportation.
11. Want of central market places in cities.
12. Tendency of population to move from farm to city.

While all of these and many other causes may contribute to some extent to the actual cost of living, it cannot be successfully argued that they have contributed to the recent advance in cost, since all of these conditions have existed for generations, some increasing and others diminishing in their indicated tendency. Their average net result would be so minute as to be considered almost theoretical. We venture the suggestion that the fundamental reason underlying the unprecedented conditions prevailing for the past twelve years will be found in a new condition which has appeared on the economic horizon, and one which will not set until the human effort that raised it fails or is re-directed. Prices are, we believe, established almost entirely by the price of labor, which until recent years was subject to the law of supply and demand, but labor unions have grown in power sufficiently to be able to set aside this law, and they now arbitrarily and successfully fix the rates of wages and thus fix a new value on the dollar. This effect is purely incidental, for it cannot be a part of the intentions of labor unions to lower the value of the dollar, since it is from their members that the greatest cry against high prices comes; and it seems not only a startling announcement, but an ironical fatality, that those who make the conditions are injured by them. Our object is to study the causes contributing to this undesirable result and to suggest means of remedy or at least of modification.

If anyone can elucidate clearly the relationship between employer and employed in such a way as will lead to a mutual understanding and a recognition of the harmony of interests, he will indeed have conferred an everlasting benefit on humanity, one for which both capital and labor have striven for a long time. It is not doubted that all society, or at least the thoughtful portion of it, whether in the ranks of capital or labor, has striven to find and would welcome any discovery that would lead to the better condition of the working people.

There have been many suggestions offered from time to time to remedy or control some of the conditions above mentioned. Many of them are capable of control, some impossible to control and others it would be inadvisable to control.

We shall further on apply analyses to these various causes, and leave the reader to draw his own conclusions. We shall first of all deal with the theme which is our main contention, namely, that wages make prices.

BASIS OF COST

The natural basis of cost to the consumer consists of the cost of labor, reasonable interest upon money used and a reasonable profit. This basis is a permanent one and cannot by any lasting cause be interfered with. There are unnatural bases of cost, such as monopoly, patents, secret processes or some other advantage that a seller or proprietor may enjoy, such as is apparent in the Canadian price situation at present. There are more people immigrating to Canada than can be given proper housing accommodations, therefore the landlord and speculator have been able to rig up the prices and rents to an unnatural basis, one out of keeping even with wages which are unusually high. These unnatural bases of cost are absolutely certain of adjustment sooner or later to the natural basis—wages. A workman should pay a certain percentage of his wages for rent. Anything paid in excess represents fictitious value.

Patents are only a temporary advantage, for they expire, secrets are found out; and monopolies must sooner or later bend to the "law of supply and demand", for if their business is found to yield disproportionate profits it will induce other capitalists to start in competition, and if they are bought out and brought into the combine still others will start, until the burden becomes too great and the combine bursts, disbands or else adopts prices that will not invite increased competition. Thus, while the natural law which provides that labor shall constitute the greater part of the value of an article may be temporarily modified, such modification can only be temporary.

To examine the proportion of value represented by labor in different commodities, let us take the value of minerals—silver or gold or any other metal. There is no doubt that billions of dollars' worth of gold exists in territories unclaimed and free to all who wish to exploit them. It can be had merely for the labor expended in finding and gathering it. Therefore the estimated worth of the labor, on the average, must correspond with the price obtained for the gold. With lumber it is the same in many cases, i. e., that the only cost is for labor in cutting and hauling—in fact in nearly all lumbering operations this rule would apply to a large extent. If a man owns a coal mine in a district in which there are no other mines he can exact a price for his coal about equal to the price at which coal from the nearest mine can be bought, and while his profits may be out of proportion to his cost of labor, it must remain in proportion to the cost of labor of mining and hauling from the other mine. By reason of the great weight of the product, in proportion to its price, the freight rates are great enough to give an advantage in competition almost equivalent to that of a patent, and while there are other special conditions which sometimes operate to render ineffective the common laws which ordinarily regulate competition, they are not sufficiently frequent or important to take into more than passing account, and they do not materially affect the fundamental principles which we are taking as a basis for the conclusions to be reached.

MIDDLEMEN'S PROFITS

Is it not a fact that most people are trying to buy everything as cheap as possible? And if the consumers found it possible or convenient to pass the middlemen, and buy direct from the producer, would they not do so? And would not the producers gladly reap the extra profit in selling to consumers if they found it possible to do so? There is no law to keep the farmer out of the city and none to keep the townsman out of the country. One would surely meet the other if it were found that a benefit accrued to either. Producers and consumers have been trying to curtail the profits and operations of the middlemen ever since trade and commerce were instituted, and the only reason the middleman still exists is that he is performing a necessary function that is a benefit to the community. With the extension of electric railways, telephones and parcel post system, and possibly the use of automobiles, the tendency will be for the farmer more and more to reach the consumer direct, and the operation of the middleman to be curtailed, but what we contend is that the present operations of the middlemen are in keeping with the present conditions. As to middlemen's profits being excessive, it is doubtful if they could be, on the average, for we know of no class subject to more open competition than they are. We believe that improved methods on their part and their tendency to specialize have decreased their profits, and that their tendency has been towards lowering rather than raising the cost of living.

EFFECT OF POPULATION MOVING FROM FARM TO CITY

In order to estimate the effect of this tendency upon prices of farm products one must compare the increase of total population with the increase of products, measured not in money but in quantity.

Taking the conditions in the United States as a basis we find that the population increased 25½% from 1898 to 1910.

In the same years the production of oats, corn, wheat, rye, barley and buckwheat increased from 3,423,411,714 bushels to 4,286,032,000 bushels or 25%, while the receipts of cattle, calves, hogs and sheep at the principal centers increased from 37,766,000 head to 51,850,000 head or 37½%.

If these products can be taken as indicating the general trend of all products, which seems a very fair assumption, the figures entirely explode the theory that the increase of urban population at the expense of the farm accounts for the increase in the prices of farm products. It is true that during the twelve years under consideration the population changed from 40% urban and 60% rural to 46% urban and 54% rural.

One can only assume that the improved methods and better machinery have more than made up for the absence of those who have moved from farm to city.

WAGES MAKE LAND VALUES

The price of land, both improved and unimproved, must always bear reasonable proportion to the price of wages; since from the recipients of the wages comes the principal demand for improved land, and from the workman's customers, namely, farmers and shopkeepers, comes the demand for improved and unimproved land. If workmen's wages are high they are able to pay more for farm produce, clothing, rents, etc., and it is found to be a fact that when they, as a body, can pay more, they do pay it. It is not only their inclination to spend what they have, but the farmers', shopkeepers' and landlords' ability to grasp their opportunity, that leads to the prices of supplies and rents advancing in proportion to wages.

It will be noticed that in countries where wages are low, rents are correspondingly low, and, of c[illegible] values must be in proportion to rents. For instance, in England, rents and land values are lower than in the United States, although in England there are 34,000,000 people on only 50,917 square miles of land (or 666 persons per square mile); whereas in the United States there are 92,000,000 people on 3,026,789 square miles, (or 30 persons per square mile). If one compares rents of a house of a given size and stability and equal convenience in or about, say, Manchester and Boston, it will be found that rents in Manchester are about half what they are in Boston. An office in the business section of Toronto, Canada, rents for about $35.00 per month; the same sized office in a corresponding district in Leeds, England, rents for about £2 10s., or $12.00. Toronto and Leeds are cities of about the same size. Leeds sells to the markets of the world; Toronto for the most part sells to Canada only. Were the price of labor not the factor, the rents would be higher in Leeds than in Toronto. In Belgium or Hungary prices and rents are even less, although Belgium is as densely populated as England. Indeed, if rents were established by the law of supply and demand, independent of the unit established by labor, English and Belgian rents would be the highest in the world, whereas, those of Belgium are among the lowest of civilized countries. These are most important data for governments and trade unions to possess, and an accurate record of them should be compiled by commissions appointed to investigate the subject. This question constitutes one of the chief facts upon which must rest a conclusion as to the cause of prices, and the figures are therefore worth tabulating in a most careful and accurate way. By having regard to the importance of trade and population in different cities in different countries, and by selecting the districts in those cities with reasonable judgment, a very safe basis could be established for comparison.

Value of Water and Air

Let us consider wages in relation to two of the most valuable things we possess—water and air. These have, except in isolated cases, no money value, yet no one can question their usefulness. Why is it that they have generally no money value? Because they are supplied in abundance and it requires no labor to produce them. However, when water has to be pumped or carried, it sells for the price of the labor expended in the process, plus a reasonable profit for the enterprise; and if fresh air were delivered in the back recesses of a mine a similar cost would be attached to its delivery there and for similar reasons.

LABOR UNIONS AND PRICES GROW TOGETHER

It is a significant fact that high prices have prevailed for twelve years past, and that during that time labor unions have grown in strength and importance in a ratio that would appear to be proportionate to the advance in prices. In 1907, when there was a financial crash, the labor unions advised their men to hold to their standard of wages, which, for the most part, they did and, as a consequence, the effects of the "crash" were soon over, and trade and prices began once more to seek a higher level. The unions made the "crash" appear more or less superficial, which, under the circumstances, no doubt it was, whereas, had they taken lower wages, they would thereby have altered the value of commodities and land, thus wiping out credit and capital.

But when labor unions possess sufficient strength, as they seem to do at present, they are able to set aside what are regarded as natural laws as well as the judgment of the money lenders, and it is doubtful if they will not continue to do so, so long as they recognize some limit to their powers. The term "powers" is used with some reserve, for while the unions may have the "power" to regulate the rate of wages, the value of money and the physical conditions under which their members shall work, we contend that they have no power to better the condition of their members by raising wages, but rather by lowering them. If workmen's wages establish prices, other workmen have to buy and rent at these prices, and our contention is that high wages are a great benefit to employers and landowners, and that the benefits are confined to them, whereas the working people are losers as also are certain other classes of society.

Increased Wages Mean Increased Profits to the Employer

Take as an example a boot factory employing 100 hands at $2.00 per day and making 100 pairs of boots. For the sake of clearness, let us take into account only the labor invested by the hands in the factory, eliminating the labor expended to produce what constitutes the raw material of this factory.

100 hands will produce $200.00 per day. Add to this, 10% for owners' profit, or $20.00. This brings the product to $220.00 per day. (So as not to complicate the case we shall leave out of account wholesalers' and retailers' profits.) This value of $220.00 represents the price at which other workmen will be able to buy the shoes, namely, $2.20 per pair, or $220.00 for the day's output. Then, say the workmen in this factory obtain an increase of wages and are paid $2.50 a day. The product will then cost $250.00. Add to this, 10% for owners' profit, or $25.00, which makes the product $275.00. This representing what workmen will have to pay for the shoes, it is quite apparent that one set of workmen have obtained $20.00 more for the shoes which they produced by their labor, and that another set of workmen have paid $25.00 more for the shoes; the difference being $5.00, which went into the pocket of the owner of the factory, and yet he did business in both cases for 10% profit. In a general advance of wages and prices this example would be repeated in every line of trade and to all classes of working people.

The fact that this example is not complicated by figures representing the cost of material, office expenses, insurance, taxes, selling expenses and middlemen's profits, in no way diminishes the efficacy of the figures showing the net result to employer and employed, but on the contrary, were they included, they would increase and emphasize the same tendency. Another point that would make this result greater in actual practice is that higher wages and prices bring higher money rates, and while the manufacturer might be content with 10% under the lower scale of wages he would expect 12% return under the higher scale.

WAGE AND PRICE STATISTICS

The following statistics compiled by the Department of Commerce and Labor, at Washington, show that the prices of food-stuffs move up or down in the same degree as wages.

	Full-time weekly earnings per employee	Retail prices of food weighed according to family consumption	Purchasing power measured by retail prices of food for full time weekly earnings per employee
1890	101.0	102.4	98.6
1891	100.8	103.8	97.1
1892	101.3	101.9	99.4
1893	101.2	104.4	96.9
1894	97.7	99.7	98.0
1895	98.4	97.8	100.6
1896	99.5	95.5	104.2
1897	99.2	96.3	103.0
1898	99.9	98.7	101.2
1899	101.2	99.5	101.7
1900	104.1	101.1	103.0
1901	105.9	105.2	100.7
1902	109.2	110.9	98.5
1903	112.3	110.3	101.8
1904	112.2	111.7	100.4
1905	114.0	112.4	101.4
1906	118.5	115.7	102.4
1907	122.4	120.6	101.5

It will be observed that the figures in the first and second columns move so closely together that practically there is no alteration in the workman's purchasing power, whether his salary is lower or higher, so far as food-stuffs are concerned, and if it could be shown that manufactured goods and real estate moved in the same ratio as foodstuffs, then it would be absolutely proven that the workman gets no advantage by high wages. From 1890 to 1907, wages have gone up 21⅛%, while foods have gone up 18⅛%. It is clear that rents and property values have gone up enormously, while manufactured goods have gone up probably as much as provisions. If rent and everything were included we feel sure that the workman's position would be found to have retrograded in the general advance.

The third column shows the percentage of a given quantity of foods purchasable by a workman's weekly wage. If one allows the ordinary fluctuations likely to occur on account of locality or time in the gathering of these statistics one can estimate them at practically 100%, for they only vary a point or two one way or the other, although wages have advanced 21⅛% in 17 years—to 1907.

We believe these examples are an absolute proof of the truth of our contention that wages make prices, and we believe that if the statistics were complete they would show that the average cost of a workman's necessities moved slightly higher than his wages after an advance in both. If this is true it seems a distressing fact, but should only cause one to look in other directions to establish a betterment of conditions.

CONDITIONS MAKING FOR BETTERMENT OR LOSS

Shortening the hours of labor cannot improve the economic position of the workman, but on the contrary, the time deducted from his work is entirely at his expense and has a worse result than higher wages, in that it lessens the value of money without giving him any extra money to offset the loss. If the working day is shortened from 9 to 8 hours it means that goods advance about 11% in price, or that money loses about 11% of its purchasing power, whichever way it suits the mind to view it.

In order to see clearly what would be beneficial or otherwise to the work people at large, one must regard them as one large family, and for sake of illustration it is better to think of one large family of, say twenty persons, on an island entirely cut off from the rest of the world and thrown entirely on its own resources. If this family were striving to better its economic condition, would not its members try to get all the labor-saving devices and the fastest and most efficient automatic machinery for producing the necessaries for themselves, and would they not organize themselves so that there would be a minimum of interference in the movements of one with the other? Would they not have everything arranged in the most systematic way? They would be producing things for themselves, and the better goods they made and the faster they produced them the better would be their economic condition. Would they not have a rule that each should work as long hours as would be consistent with health? Would they not be careful that their common possessions were not destroyed by fire or explosions or otherwise? So the labor unions should view their family. They are in the same position, only on a large scale and, therefore, instead of fighting the introduction of automatic and fast-moving machinery, they should, in their own interest, encourage it. All economic gain is gain to the workman. All economic loss is loss to the workman. All wastefulness is at their expense. Fires, destructive explosions, strikes, wars, are all at their expense; they may not immediately bear the entire burden, but they must ultimately bear the loss. Some capitalists may be hurt, or even ruined, by these catastrophies, but the capitalists as a family are not injured by them; on the contrary, they charge them in premiums of one kind or another to the tenants and toilers, and to change this position would be as difficult as to roll the sea back upon herself.

It must always be borne in mind that capital expects a certain net return, and that whatever adjustments are required to make an investment yield the desired rate are effected; and while the net return on capital may be temporarily reduced it is sure to be adjusted later on. For instance, if a great fire occurs, wiping out millions of dollars' worth of property, the loss immediately falls upon insurance companies; but shortly afterwards the heads of the companies get together and arrange a higher rate of premiums, and thus they turn their apparent loss into a loan; and the amount of the loan comes back to them within a period of, [illegible] one or two years in the form of increased premiums. Where these premiums apply to places of business they are added to the cost of goods; and where they apply to buildings they are added to the rents. Railroad accidents are figured in the freight and passenger rates. Liability to loss by strikes is figured in the cost of the goods. Thus the loss from all these unfortunate occurrences is collected from the purchasers of goods and the people who rent houses—it is the wage-earner who pays all. And is it not a sad reflection that for centuries the toilers have looked upon every economic saving in production as a loss to them, and every property-destroying catastrophe as a blessing in disguise? Is it not an equally pitiable picture to see the masses struggling for higher wages, and as they rise, the prices of commodities which they must purchase rise slightly higher? Just as well try to invent perpetual motion as to attempt to better the condition of the working classes by increasing their wages. Indeed, they are very much the same class of proposition; for in one case it is hoped to get more out of a pay sheet, without any additional investment of labor, by changing its nominal value; and in the other case it is trying to create a force, without any investment of energy, by balancing mechanical devices.

There is no doubt that the economic position of work people has been improved within the last fifty years, and they are apt to attribute the improvement to strikes and organized effort. If the betterment came from these efforts above mentioned it would be clear that the employer has been made to give up part of his profits to the work people. This is certainly not the case, for never were employers better off than today. Almost, if not all the economic betterment of conditions for the working people, as well as employers, has come from improved methods of production, transportation and general commercial and domestic facilities.

As regards the so-called advance in "cost of living" that has occurred since 1900, the cause of which the world in general is seeking, it seems quite clear that there has been little or no real advance in cost, but merely "an advance in the level of cost and earnings." Workmen have suffered a slight disadvantage, people on fixed incomes have suffered a very serious disadvantage, and employers have gained considerable advantage; the average for all three classes remaining approximately in statu quo.

Therefore, speaking for society in general, we would say that the level of cost is established by wages, and that the average result as regards all society has been nominal.

There are, however, many causes which affect the actual cost of living, such as:

Stock watering and speculation.

Corners and combines.

Excessive profits.

Wasteful consumption and extravagance.

National armaments.

Strikes, lockouts and idleness.

Fires, explosions and all destructions.

Slow and inferior methods of production.

As pointed out before, these intrinsic causes cannot account for any material part of the price changes that have been effected from 1900 to 1913. They have been at work in different directions—for instance, fast and automatic machinery has tended considerably towards reduction, as have also trade and industrial combines in many cases, but these have been offset by strikes and speculation, principally, and other causes to a less extent, and while these alone may have left the net result unaffected, the great change in price (over 50%) has been effected almost entirely by wages.

Position of Capital

The position of capital can also be best studied and understood by finding its counterpart on a small scale.

A capitalist with a modest fortune, if he manage his affairs wisely, will keep an account of his capital separate from his revenue. He will invest his capital moneys only in things that he considers permanent assets, and will see to it that all running expenses of every description are paid for entirely out of his revenue, thus leaving his capital assets to remain intact, in order that he and his successors may always have something from which a revenue may be produced. And he will from time to time add to his capital from revenue moneys, in order to provide for possible and unforeseen losses in capital account.

The economic body of the nation is run exactly on the same plan. There is a capital account and a revenue account. The capital consists of assets in the possession of the people, including savings, small and large, deposited in banks and other institutions; and the revenue consists of the salaries and wages of those who work.

It is just as necessary for the economic wellbeing of the nation, including the work people, that these two accounts, capital and revenue, should be run separately, and that expenses should be met out of revenue, and capital kept unimpaired, as it is necessary for the individual capitalist to do so. And, as we see it, the plan is strictly adhered to by all prosperous nations, after the manner herein previously described. Capital provides all manufacturing plants, warehouses, railroads and all public utilities—in a word, all organized machinery of man aiming at a state of civilization. If capital were to be destroyed or dissipated, civilized organization would disappear in proportion, and work people would be driven back to the hardships experienced by their forefathers in their primitive methods of making a livelihood.

The German Government has recently forced all capitalists to contribute a vast sum (one billion marks, or two hundred and fifty million dollars) from their capital accounts to meet an extraordinary war expenditure. This may not be sufficient in itself to have much effect on the finances of a wealthy nation, but were this principle continued and extended far enough, it would certainly drive the German Nation into the position of Turkey or one of the poorer Balkan States, whose people are proverbially poor and suffer hardships and inconveniences that present-day Germans know nothing of, and it would reduce Germany's forest of tall chimneys to the level of hay and corn.

The people's chief security rests in the security of capital.

Capital without the employment of labor would yield no revenue, and in this way their interests are inseparably bound together.

Interests are Mutual

It is equally vital in the interests of the country and humanity at large that the interest of labor unionism should be preserved; for while we are contending that they have been working under a misconception in some respects as to how best to promote their own interests, the same charge could be laid against capital, whereas capital should support the labor unions by friendly counsel and money, and help them to arrive more closely at a correct conception of what their interests really are. Not by bullying, but by statistics laying bare the facts from both sides of the case, and by consistent organized friendly intercourse. Labor unions certainly have a noble aim in view, and though they may have missed the mark in some directions they have accomplished a great deal of good, and it is to be hoped that their organization will grow stronger from year to year, and that by a scientific study of economics they will evolve a plan whereby their members will derive the greatest benefit to themselves for the labor they invest. We believe this will be accomplished only when their economics are studied on a broad plan, embracing all working people, and considering them as one family. The work people and capital are partners in industry. One certainly can not get along without the other, and we believe this partnership would become harmonious if only both thoroughly understood their own position and what effect the other's interests had on theirs. This is not likely to be understood until both labor and capital are fully organized on a national scale, including in each organization all branches of investment and work.

After all, capital is merely a credit or a property representing accumulated labor, and those who possess it should look upon it more as a trust, and use it in such a way as to benefit the interests of the working people. They and the farmers are the real producers, for it is manifest that those who work must alone produce the sustenance for all consumers.

Money invested gives employment, but money spent in unproductive ways, such as vulgar display and a surfeit of luxury, is just as much a burden on the worker and adds just as much to the actual cost of living as war armaments, and while the latter is often necessary the former has no justification.

EFFECT OF PRICE CHANGES ON DIFFERENT CLASSES

Since price values are established by wages, and as one of the great objects of labor unions is to regulate wages, it becomes an interesting study to examine the effects of higher and lower prices on all classes of society, and to estimate the value of the power which the unions exercise, and which some day, with a broader organization, they may wield with unerring precision.

The present incomplete organization of labor unions results only in one class of work people waging war on another or all other classes of work people; when, for instance, plumbers alone obtain increased wages, they derive the full benefit of the same, and all other classes who employ plumbers pay for this benefit; but when all other classes of work people demand and obtain corresponding increases, the plumbers' former benefit is nullified. In this way war is carried on between the different producers, and as stated herebefore it accomplishes nothing for the work people but alters the value of the dollar and the pound. In this readjusment some people are injured and some are benefited. Indeed, benefit is bestowed on most people except those who have struggled for it.

In studying the effects of higher price standards on various classes of the community, let us in each case assume an increase of 50% wage and price standard.

THE LAND OWNER

The land owner is one of the most important considerations in all value readjustments. A block of land worth $10,000 at the lower level becomes worth $15,000 on the higher level, and if this be converted into cash the owner is a gainer by $5,000.

LOAN COMPANIES

The effect on loan companies would be to increase their security on old mortgages while inflation lasted, but mortgages taken at the high level would suffer from the shrinkage in security, and in many cases default would result.

BANKS

Banks are among those which benefit most by inflated values, and provided they are watchful of their security against loans made at high level, their profits are not so apt to slip away from them on the recoil of values as is the case with those engaged in business and other financial pursuits, for the reason that all careful bankers keep a safe margin between the amount of their loans and the assets looked to for security, and these assets are generally of a liquid or salable nature. Besides this, loans are made only for comparatively short dates.

Not only does the business of banks increase 50% under a 50% higher price and wage level, but this higher price level invariably brings with it a higher rate of interest, therefore a bank may increase its profits by half, through the increase of volume alone, and if interest rates go from 5% to 7½% they reap another 50% profit; i. e., 50% of the already increased amount. For instance, a bank whose assets are $50,000,000, which it loans at 5%, will have gross profits of $2,500,000; whereas, when the assets grow to $75,000,000 and are loaned at 7½% they will yield $5,625,000; thus while the volume of business has grown only 50% the profits have grown 125%. This is the theory of it, and one has only to examine bank statements for ten years past to see how these theories have worked in practice.

It would seem that the banks are more interested in having a permanent high level than any other class of institution or any corporation or any individual, unless it be those who sell out at the high level, and wait, cash in hand, for a low level.

Merchants and Manufacturers

The merchant and manufacturer view with favor that period during which values are rising to a higher level, for not only do advancing prices lead to increased business through intrinsic causes, but business is forced still higher by reason of the general confidence pervading the buying public. The volume of business is increased and the percentage of profits is also increased, but these profits remain permanently only with such firms as are able to see the dangers of inflation, and reef their sails accordingly.

The writer has heard good business men say that "good times" are so only in name and that they preferred trading in quieter times. We do not take these remarks too seriously, however, for they are made when harassed by slow or impossible deliveries (of goods), rapidly fluctuating prices and labor troubles. These are one side of the question, but, taken on the whole, it is thought that a wise business firm can do better on rising markets than on steady ones.

FARMERS

Farmers are gainers all around at high prices; apart from their opportunities in the land situation previously described, they get 50% more for their produce, and while they pay more for their hire the prices they get more than compensates them.

PEOPLE WITH SMALL CAPITAL

Let us consider the position of the person of small means derived from investment of capital amounting to, say, $10,000, invested in debentures or other forms of securities of the nature of promising to pay money. At the lower level they receive an income of (at 4%) $400.00 per annum, on which they can live in simple comfort, for they are buying everything at the lower rate. Then "good times" come and everything increases 50% in price, including rent or board (whichever happens to affect them). They are able to reinvest any capital that becomes released at 2% higher rate, and (let us suppose they derive an average of 5½%) their income will then be $550.00. But as money has lost one third of its buying power they are able to buy with $550.00 at the higher level 8½% less than they could have bought for $400.00 at the lower level; therefore their income has, in effect, been reduced about 8½%.

So-called "good times" are not welcome to these people. They are not in a position to change their investments into stocks or lands according to the varying conditions of markets, as these changes involve speculation of which they cannot afford to take the risk, besides which people of this class are not usually posted on the conditions which make for higher or lower financial levels.

FIXED INCOMES

People living on pensions or fixed salaries are even worse off than a person living on the revenue of a small capital. Every nominal advance in the cost of living is a real advance to them, for while they see prices and other people's incomes advancing together, their incomes remain stationary. Their loss corresponds in percentage exactly with the percentage of the nominal advance, and is the most serious thing for them, watching as they must their comforts and necessities disappearing one by one until the tide turns.

THE WEALTHY MAN

The wealthy man is the next consideration. Let us take as an example a man who is worth $1,000,000, who has his money invested the same as the last investor mentioned, in securities of the nature of promises to pay money. At the lower level his income will be, say, $40,000, and he will spend $20,000 a year. At the higher level his income will be $60,000, and his expenses will rise to $30,000, which will place him in a better position to the extent of $10,000 if only his interest account and expenditure are taken into consideration. And so far as his capital account is concerned that does not change, because it is in securities that are promises to pay specified sums of money, whose value does not go up to any appreciable extent and does not go down unless the securities are not good. Also provided that he does not wish to alter the form of his investments. Had this man, however, had his million in properties and stocks and had he sold them out at the higher level he would have got $1,500,000 for them, and had he then placed his money in securities of the nature of promises to pay money and had held to these until the lower level was reached again, provided his securities were well chosen and were safe, he would have been in a position to re-invest and buy 50% more properties and stocks than he originally held.

SAVINGS ACCOUNTS

A person with savings in the bank is affected in a way that is seldom suspected by the average complacent depositor. If a person has, say, $30,000 on deposit in a bank, pla ed there at the low level of wages and values, and keeps it there while values mount 50%, that person, in effect, loses one third of his capital, while his bank book will record the same figures as he placed there at the lower level. When he first deposited that money he could have bought, say, six houses at $5,000 each, whereas at the higher level he could buy only four of these houses with the same money. All the while he has rested content with the idea that he has his possessions in a safe place and in a form that is not subject to fluctuation in value, whereas, on an average he is losing every day much more than the bank is paying him in interest.

On the other hand, a man who deposits money at the higher level and leaves it there until the lower level is reached will increase the value of his possessions, besides getting interest, and in this case, also, the figures in bank book representing the principal sum there on deposit will remain unchanged. When he deposited his money it could have bought only four houses, but when he withdraws it he finds it sufficient to buy six. It must be borne in mind that conditions affect money in exactly the same way that they do all securities of the nature of promises to pay money, such as mortgages, bonds, debentures, notes, etc., and that land or stocks of corporations or stocks of commodities are affected together, and in the opposite direction.

Enough has been said as to the effect of price fluctuations on various members of the social fabric, and it is a convenient point at which to study the power of un[illegible] to guide these fluctuations and to study their interest to see where it lies.

Unionism on Broad Scale

At present, trade unions are united only to a very limited extent; the principal function of the present unions being to influence legislation and in case of extreme trouble between members of one of the *units* and employers to offer advice and mediation. These unions must some day be united on a much broader scale, if they are to derive the full benefit of unionism. There is no more important work in the country than the regulation of the affairs of the work people, and such work is worthy of the most perfect organization. A country should be divided into electoral districts, and a member should be elected for each district and sit in the labor council. From the members of this council, committees could be formed to formulate and recommend definite plans for the regulation of wages, hours and other conditions for all trades throughout the country.

No doubt they would find it necessary to modify wages and conditions according to the locality, but the important thing is that a harmonious arrangement be effected at one time, affecting all branches of labor the same as our budget relating to custom duties is published and made law from its time of reading. When the council decided upon a new level of wages, the difficulty of all adjusting themselves to the new level would be no greater than that necessitated by a new customs tariff. At present, small unions are operating independently, and as a matter of strict fact, are waging war more against the other unions than against their employers.

When a strike is declared, the employers generally defend their position, but if they are nominally defeated they raise their prices and transfer the burden of their defeat to the shoulders of those who buy their products; for the most part these are members of other unions.

The general council of labor suggested should study economics on a broad national scale; they should publish a text book on economics and keep it revised up to date to suit varying conditions. This would provide a definite basis for all procedure and would facilitate the formulation of plans of operation. A complete record of all statistics affecting their interests should be compiled; such to contain figures relating to prices of commodities, labor, land values, rents, etc., at home and abroad.

When the council gets down to work, the most important thing to be considered would not be the average scale of wages, but the rate to be apportioned to each, so that proper rates would be given according to the conditions surrounding each operation.

It is of some importance how high or how low the general scale is made, but this would not appear to be as important as the proper comparative scale accorded to each branch. So far as the general scale of wages is concerned, the unions have no power to raise or lower, to an appreciable extent, the economic position of their members by merely securing for them a nominally higher or lower wage. The change so obtained is very slight, and we believe the benefit lies in the opposite direction to that from which it has usually been expected. If the unions apply proportionate increases to all branches at the same time it would almost certainly at once remove the opposition of employers and proprietors, that is, provided the increase sought was in a country whose products were protected from outside competition to a point in keeping with the higher scale of wages desired.

It must be emphasized that while employers would welcome an all-round increase in wages and the attending inflation in prices, they would never be brought to the point of peaceful submission to increases of wages by fits and starts, first in one trade and then in another. On this plan, the point at which each will strenuously object is when the increase is to occur in his branch of trade, and all will offer passive objection all the time; for the reason that, if other trades are interrupted by strikes and lockouts, workmen's wages cease and the market for their goods is diminished.

Sudden or exaggerated adjustments in prices up or down bring with them circumstances which are a loss in the economic fabric and for which the great majority suffer. When prices are adjusted upwards, speculators, who earn nothing and live upon the economic body of the nation, rig the prices of everything, and especially of land, up to a point that is out of proportion to the scale of wages. This being entirely fictitious, adjustment to a lower basis must follow; this impairs credit and the ball starts rolling downwards, carrying hardship to employer and employed. The adjustment downwards has always been brought about in this way, but it is not inconceivable that one day an adjustment downwards may be effected by the labor unions deciding on a lower scale. The effect on credit would be the same and would have the same results as though initiated by the speculators' panic, and its effects would be in proportion to the degree in which wages were lowered. Hence the wisdom of aiming at slight and gradual adjustments in either direction.

When one fully considers the effect on land owners, capitalists, banks, employers and farmers, and when one contemplates a nation-wide organization of unionism, a veritable parliament of labor, one commences to realize the possibilities of an influence even greater than any combination of capitalists that has yet existed. Capital would have to organize on just as broad a basis, and experience alone could prove which would be the stronger in case they did not recognize their community of interest. It would be strange to hear of capital's petition to labor *not* to lower wages, *not* to impair credit, *not* to depreciate the value of their lands and merchandise. This would all be a new drama in the economic world, and yet it would be logical, the only logical outcome even though it must prove the past illogical. It is quite possible and even probable that, even under the proposed system of adjustment, the labor leaders could keep control of the less informed rank and file members only by recognition of the higher scale. Then their path would be perfectly smooth, for they would meet with opposition neither from their own members nor from those of capital by working for the higher standard. The two parties would then only be limited by considerations of tariff and national indigenous resources in the market within which they were to operate. These features, as do all others, affect capital and labor equally. Indeed, we believe that a thorough study of economic problems can only lead to the conclusion that there is no dividing line between the interests of capital and labor; they are inseparably bound up in each other; one is really an inherent part of the other; if they could agree on certain important premises which we have attempted to make clear in this discussion, there is no reason why they should not have a working agreement, studying their interests together and moving forward as one mind in one body to conquer all economic difficulties, and give to each member the maximum comfort and enjoyment obtainable by his investment of energy—mental and physical.

This is not a mere dream, but something that can be accomplished some day by the logical consummation of practical economics. The last century has accomplished a lot for mankind in giving us easy transportation, steam and electric power, telegraphy, telephony, Marconigraphy and many other means for facilitating the production of man's necessities and bringing the different families of the world, great and small, into closer intercourse, and otherwise bestowing a thousand benefits on the race.

We believe that, when the time is ripe, the right men for the work will make their appearance who will effect the adjustment of the social mechanism so that it will run more smoothly and produce better results. Oiled with sympathy and honesty, and braced with a better understanding of practical economics on a broad basis, it is believed that end can be achieved within a comparatively short time. Let us hope that the world's present necessity for such men will bring them to the front.

GOLD PRODUCTION AND PRICES

THERE can be no doubt that increased gold production has a theoretical effect on land and commodity prices, but as to whether it has had an actual influence in raising prices is very improbable, while the possibility of its having influenced prices to an appreciable extent can be positively answered in the negative.

In order to lay our premises for the reasoning that follows we shall quote certain statistics.

From 1910 to 1913 the world's gold stock has increased $5,250,000,000. During the same period, wheat, corn, oats, cotton and pork have increased an average of 62% in price.

The combined wealth of Great Britain and the United States is $210,000,000,000 and we take it as a fair comparative estimate that the combined wealth of all the gold standard countries in the world is about $750,000,000,000. If gold production influences the price of any commodity it must also influence *all* commodities, lands and buildings, in a word, *all* assets in the same proportion.

This influence must spread equally in all gold standard countries.

Therefore, all the assets ($750,000,000,000) of all the gold countries must be influenced as much as the commodities above mentioned, which we find to be 62%.

This would mean that $462,000,000,000 of assets in 1900 had increased by $288,000,000,000, to account for their value of $750,000,000,000 in 1913. This leads to the statement that $5,250,000,000 of gold have created $288,000,000,000 of assets, or that every dollar of gold has created fifty-five dollars of assets—rather a ridiculous proposition. It sounds something like one of those get-rich-quick schemes. If one accepts the figures forming the premises of this argument, and they are taken from the most reliable sources, it should give the gold theory its absolute quietus.

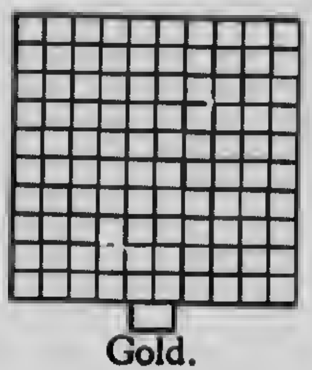
The commerce of the world is carried on by a system of adjustments of credits and debits, and gold is employed but to a small extent in these adjustments. While, in England, gold is used in hand-to-hand payments, and to a less extent on the continent, it is not in use to any practical degree in America; indeed, there are many thousands of people in America who have never seen a gold coin.

Gold is used to effect international adjustments, as well as those between financial institutions, but these adjustments are infinitesimal in amount when compared to the transactions taking place *between* the adjustments. The international commerce of the world, stipulated in gold, is about $33,000,000,000 per annum, and the internal commerce is considerably over $800,000,000,000. Seeing that the total supply of currency gold in the world is about $7,000,000,000 it is clear that the metal does not follow all the commercial transactions, nor could these possibly be based on gold, beyond the point of its being merely a standard of measure and a medium for adjusting periodical balances.

Accepting the conservative figures of $833,000,000,000 as representing the combined internal and international trade and commerce of the world, the gold currency of $7,000,000,000 bears to it the proportion of only 1-119, and if it be accepted that merchants and manufacturers turn over their stocks four times per annum on the average, it will be seen at once how inadequate the gold supply would be, if it were necessary to have gold actually behind every transaction.

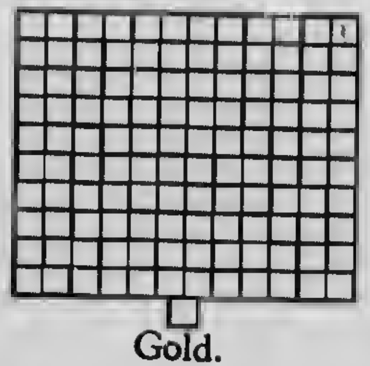
The gold currency in reserve and in circulation in the United States is $1,753,000,000, whereas the savings in banks, trust companies and loan companies amount to $10,430,000,000, or six times as much as the gold currency, yet all these savings are stipulated as being payable in gold, and the average person believes that dollar for dollar of his deposits rests in gold in the bank ready for payment. The fact is that deposits are payable in "gold measure" but not in actual gold. Some can be paid in gold, but that part of the deposits not secured by gold must be secured by something else, which can only be those things in which the banks invest their funds, such as bonds, shares, loans to customers, real estate, etc. The security for loans to customers consists for the most part, directly or indirectly, in stocks of merchandise.

The combined wealth of Britain and the United States alone is estimated at $210,000,000,000, compared to which their stock of currency gold is only 1½%. If their wealth were based on gold, the base and superstructure would present this appearance.



Combined
Wealth
of U. S.
and Britain.

If the credit of the world were based on gold, the architecture of it would be thus:



Annual
Trade and Commerce
of World.

Rather a flimsy looking structure, and one that would cause the upsetting of credit more easily and more frequently than is actually the case under existing circumstances, which are that credit is based on land, buildings and stores of commodities, among which is gold.

The function of gold is more as a standard than as a medium. As the former it could never be taxed to its limit; and as the latter it is not threatened with having any insupportable burden placed upon it, especially in view of the annual production of nearly half a billion of dollars and the general tendency to circulate paper money, and to rely upon book adjustments or checks for the settlement of debts. Seeing that gold is only one of the articles of value upon which credit is based, and that its function is largely that of a scale or measure, we take it that some other source of influence is accountable for the rise in value of lands, commodities and wages. Our opinion is that wages are the influence, and that they have influenced lands and commodities upwards and gold downwards. If gold production were to be doubled and wages cut only 10%, prices would undoubtedly move with wages and would decline.

ANOTHER VIEW OF GOLD PRODUCTION AND PRICES

IT has, of late, been frequently stated that practically all the economists are agreed that the increased production of gold is the principal cause of the increased prices of commodities. If this be true, and if they are wrong, it behooves anyone attempting to assail their arguments to look for some very subtle point in the question; for subtle it must be if they have passed it unnoticed. It seems to the writer that the point at which they have taken the wrong path is when estimating the influence of gold upon a given transaction, they have made a capital instead of a rental or interest charge for the gold employed. It must be borne in mind that gold is only employed in transacting the exchange of commodities. It has not gone out of existence except for the fractional part lost in handling. Therefore, all that should be charged against a given transaction is the rental for the time during which the gold is employed and the value of the gold lost in handling. The annual trade of the world is 119 times greater than all the currency gold. Estimating that stocks of commodities, etc., are handled four times per annum, that gold wears out 1-200th part in one year and that the interest rate be 5% it would then be correct to charge against a transaction amounting to $100.00 as follows:

Interest for three months at 5% on 4-119 of $100.00..............	¢4.20
Wear and tear, one fourth of 1-200 of 4-119 of $100.00............	¢.42
	¢4.62

On the basis of these figures the gold standard costs 4.62c. for every $100.00 of business, or 1-2165 part, whereas the economists are charging dollar for dollar against each transaction.

When one sells a house nominally for gold he does not want the gold itself, but merely uses it as a medium for measuring how much raw material or other things he is to get in exchange for the house. After the percentage of gold employed has done his business it passes on to do a similar service for another, and so on as long as the life of the coin lasts.

One requires a building to transact business in, but one would not think of charging the entire cost of the building against a single transaction taking place in it. Yet this is what the economists are doing in estimating the influence of gold. The influence of a building and the gold standard are quite alike in their relation to the cost of doing business. They both add to the cost, but both are merely rental or interest and wear-and-tear charges.

The only way in which increased gold production can influence prices is indirectly through wages, by providing large liquid reserves and imparting thereby a greater security to credit, thus facilitating the exchange of commodities. This in turn assists the employers to meet the demands of labor for higher wages. Wages are the measuring scale for the value of gold as well as commodities.

INTEREST RATES

INTEREST rates are always higher under a high monetary standard than under a low one. Why? Because, the person charging interest for the loan does not want gold but that which gold will buy, and when, as under the high standard, gold is less valuable and commodities more valuable (the interest being expressed in gold) the lender must have more of it. For instance:—

When wheat is 50c. a bushel, a man lends $1,000 at 3½% per annum. That means he gets $35.00 or 70 bushels of wheat.

When wheat is $1.00 a bushel, he lends $1,000 at 7% per annum. That means he gets $70.00 or 70 bushels of wheat. The same amount of wheat is obtained in both cases. It will be found that the interest on $1,000 will at all times be approximately the same quantity (expressed in weight or bulk) of a given number of commodities; at least this applies to any class of money that is open to competition and not restricted by some special cause or influence. The point of this is that man can live on such commodities as wheat, but cannot live on gold itself; that is why he wants a certain quantity of commodities in return for the loan of his thousand dollars. There are, of course, many different classes of money, and these classes have to be subdivided again, according to the security of the loan or otherwise. There are time deposits, demand deposits, notes, mortgages, bonds, debentures, call loans, etc.

Merely for the purpose of illustration we shall state what, under average circumstances, in our opinion is approximately the quantity of one commodity a lender should expect to receive as annual interest for the loan of $1,000. We shall select wheat for the purpose, because of its stable position among commodities.

Demand deposits	0	Bushels	of wheat
Time deposits	50	"	"
Mortgages	75	"	"
Notes	85	"	"
Bonds (Industrial)	75	"	"
Debentures	62	"	"

Call loan money is in a class by itself, subject to so many varying circumstances that may have no relation to the general monetary standard that it would be useless to apply the same rule to it. It goes to extremes of low or high rates for reasons quite different from those that influence other classes of money.

In describing the influence of high and low prices on the other classes of money above described we refer only to a general tendency and only claim that the rates approximate the bases described. Money lenders have no such accurate barometer as we describe to point the rates to charge; but the general influences at work have the tendency to approximate the proportion referred to between money lent and commodities.

PROTECTION AND WAGES

IN discussing the subject of protection we shall take it for granted that labor organizations are limited to the bounds of individual countries, and that they have not achieved an international basis. The objects of labor unions being to dictate and regulate the conditions under which their members shall work, it seems obvious that their interests are best served by coming into direct and unrestricted competition only with those who are limited by the same regulations as themselves. These regulations go to fix the monetary standard, and it is clear that in the average run of instances the product of workmen working under a high monetary standard will be difficult of sale in countries where the lower standard prevails; while the product of workmen working under the low monetary standard will be easy of sale in countries where the higher standard obtains. In this the advantage would be all for the country working under the lower standard. For instance, if an article produced in England, where the lower standard prevails, for 4s. 2d. (four shillings and twopence) or approximately $1.00, were to be sent to the United

States, where the higher value prevails, and if it were subjected, say, to 25% duty, it would cost, laid down in America, about $1.30, including carriage charges, and would come into competition with the American-made article, which would cost, perhaps, $2.00. This would shut up the American factory and throw American workmen out of employment. But if the United States imposes a duty of 95% or 100%, then the competition for trade in the American market is fought out on approximately even terms, with the result that American firms would get the greater part of the trade, on account of their proximity to their market, and the English and the other foreign firms would get a small share.

When articles are very heavy in proportion to their money value the carriage charges are in themselves a great protection, and the necessity for tariff protection diminishes proportionately; for instance, iron rails, under ordinary conditions, would require no tariff protection, even though the wage standard were much higher in the one country than in the other, provided the competitive country were a long distance off, because the freight charges would be so heavy that they would more than offset the difference in wages paid to produce the rails in the one and the other country. Coal and many other products would be in the same category. Such articles as silk, watches, etc., are at the other extreme; the carriage charges on these are so light that they afford no protection worth mentioning, and therefore the government must impose a duty sufficient to cover the difference in wage standard in order that the manufacturers of the high standard country may compete for home business on equal terms with the lower standard country. Consider, for instance, the position of the United States in a general way. In that country, agricultural and mineral wealth abound; their tariff has given all an opportunity to develop these resources from the ground up to the highly finished state of manufacture in all lines; these conditions, and the persistency of labor organizations, have led to a high standard of wages; in turn, the high wages have led to high prices. In some cases it might be noted that prices have not risen in proportion to wages, compared with those prevailing at an earlier period. This is accounted for by improved machinery, methods, or system in production, and had these improvements existed in the earlier period with which the comparison was made, then the price and wages would have increased proportionately, providing the raw material were produced in the same country or under the same monetary conditions. With this high standard of wages and price established in the United States it becomes an impossibility to lower her tariff to a point not in keeping with the difference in wage standard between that country and competing countries. This was tried when the Wilson Bill was introduced, with the result that industries were closed, soup kitchens opened and bread lines extended.

The Underwood Tariff now before the American Senate proposes even a lower rate of duties than that of 1894. While one is impressed with the high-minded motives actuating the present administration in trying to relieve the common people of some of their burden, we cannot but feel the impossibility of the task without having the economic support of the masses. If they would agree to adjust their wages to the new duties, the tariff would be an ultimate success, although in the process of adjustment there must be countless hardships endured, through the wiping out of equities of borrowers and the dislocation of business resulting therefrom.

It has often been said that what industrial Europe had most to fear was that the United States should become a free import country. To become that and retain her present wage standard would ruin her or, better said, it would be impossible. If, however, her workmen would take the same wages and work as many hours as workmen in competing countries, they would have every chance of proving themselves a dangerous competitor, for the basic reason that her soil and mines produce all the raw material out of which her manufactures would be made. England is differently situated; she has coal, it is true, but has to import largely in iron and most other minerals, also most of her agricultural necessities. Since she is forced to buy her raw materials and food-stuffs abroad it is clear that she must sell her finished products abroad, otherwise she would soon become bankrupt. Just at this point it may be well to refer to a matter which often draws out a wrong conclusion. Inasmuch as England's imports always exceed her exports, and as England is a wealthy country, it is argued by some that this excess of imports must produce wealth.

This is clearly a case of mistaking cause for effect. The English have established commerce and industry in every quarter of the globe, and it is the interest earned on these investments and on her mercantile marine that makes it possible for her to import more than she exports. It is only an evidence that she has made herself a great creditor nation.

This represents daring and energy in the past, for which present generations are reaping the benefit. England might, with success, impose a tariff on imports of manufactured articles, and thus protect her own industries; it would, however, be a disastrous move to tax her food-stuffs and raw materials. Likewise it would be impossible for her workmen to establish a high standard of wages, for such import taxes and high wages would affect prices of everything produced; thus it would be impossible to sell the products abroad, especially as they have to face import duties in nearly every country. In order to compete, successfully, their products have to be as cheap as or even cheaper (after adding duty and freight) than the same products are sold for in the country in which trade is sought. Free import of raw material and a low wage scale are the only conditions that can accomplish this. (It must always be reserved that there are lines manufactured or produced under special conditions in a high standard country which would not come under this rule.)

English investors are placed in a very uncomfortable position in regard to wages and prices. Labor unions are fighting them on one hand and foreign tariffs are fighting them on the other. The unions there can succeed only to a certain degree, for there is a point at which starvation must appear as the remedy. When factories find that their prices exclude them from foreign markets they are compelled to seek the remedy in closing down and in lock-outs; this brings about lower wages, and it is by this alone that either employers or employed can survive in a country so situated as England.

It is probable that the colonies will be asked to take such matters into full account when the subject of taxing England's food-stuffs comes under consideration. It is not probable that a policy likely to stifle the mother country in order to better feed the children will be advocated. The children can best be cared for by providing everything possible for the mother's protection.

The price and labor arguments affecting England do not apply to a self-contained country, such as the United States. It can flourish on high or low wage standards so long as it keeps the tariff and wage scale in proportion. It need not export or import and yet could be a rich and prosperous country, for the simple reason that it could produce all its requirements from the ground up.

SHORT SELLING

SHORT SELLING AN ENEMY TO EMPLOYER AND EMPLOYED

RAPID and exaggerated fluctuations in values and credits are inimical to the interests of business and all dependent thereon. It is true that many reap a benefit while prices are advancing, but the inevitable recoil brings unsettlement and in many cases destruction.

Short selling is a stock market operation, and consists in borrowing shares of stocks from those who own them and selling them at as high a price as possible, then buying them back at as low a price as possible and returning them to the person from whom they were originally borrowed. This completes the transaction, beyond the mere calculating one's profits or losses, whichever the case may be. Short selling, for the ordinary public, is a very dangerous operation; it is speculation in its worst form; but for those who are "inside" and control the situation it is a very safe operation; in fact, it cannot be considered as a speculation at all. It is absolutely sure. To consider this subject at its worst we must lay the scene at New York. In that city great moneyed men form themselves into speculative cliques, recognizing the principle that in union there is strength. They control the banks and trust companies in whose care are deposited many hundred millions of dollars of the people's money. A very large function and source of profit of these institutions is to lend money "on call" against collateral securities which the "public" buy on margin. Money is often loaned at much lower rates than the securities yield in dividend, so as to facilitate and encourage their purchase by the public. Under these conditions the buyer finds that, after he has paid interest on the loan, charged his venture with interest on his margin and collected his dividend, he has a net profit on the transaction, so far as interest account is concerned, but is, perhaps, oblivious the while that his capital account is in danger, and that the courteous and cheap accommodation at the bank is merely a spider's web in which the fly is entrapped and, if not devoured, it comes out minus a few limbs.

When it is found that hundreds of millions of securities have been bought from the clique by the public, who have bought them on margin and deposited the securities in the banks against loans made on them, the cliques are in the position of being able to know what securities are pledged at the banks, and how much is loaned upon them. They can even get an inventory of the exact stocks—so much Steel Common, so much N. Y. Central, etc., etc. When they have this information they have only to borrow shares from their own banks and offer them for sale in large blocks to depress the price. This forces the public to margin up their stocks, or else sell them, and in the majority of cases it means to sell. The banks are ordered to raise interest rates on call loans and to demand larger margins, and in these ways the public is forced to sell out, until nearly all the collateral held by the banks is dislodged, and it again falls into the hands of the clique at prices far below those at which they had previously sold it. By a similar process they repeat the operation and sell the shares back to the public at higher prices. It is a much more difficult side of manipulation to get the public to buy the shares, and often requires months and even years of preparation in order to provide sufficient inducement to buyers. However, once the securities are sold and deposited as collateral in the clique's banks it is the simplest operation imaginable to force the public to sell the shares bought in at much lower prices. The money of one set of the public, namely the depositors, has been loaned to another set of the public, namely the smaller marginal buyers. In other words, the public supplies the cow and her feed as well, and when the cow is killed the feast is attended only by the cliques.

The public is coaxed to buy, but shackled and beaten into selling. The buying is a long and tedious work to bring about; the selling is as a banquet with the menu all prepared. Clique short selling is the "sure thing"; so much so that it amounts to theft. It is beating a man with his hands and legs tied. The sooner America by law, prohibits short selling, the sooner will she rid herself of violent market fluctuations and enjoy more even monetary conditions. This will be the greatest benefit to all engaged in industry and commerce, whether employer or employed. It will at least curb the speculators and thin their ranks. The country will have fewer parasites feeding upon her and reduce in a very marked degree the business of her wholesale gambling house.

Short selling occurs also in Canada, but there is not the slightest indication that the methods above described are practiced in that country.

STOCK WATERING INJURIOUS TO INTERESTS OF WORK PEOPLE

STOCK watering derived its name from the practice of Daniel Drew, a noted Wall Street manipulator, who was previously a dealer in cattle; before taking his cattle to market he fed them salt, in order to create great thirst. He then gave them all the water they could drink, in order to increase their weight. The purchasers of his cattle found that they had bought a lot of water at the price of beef.

In the financial world "watering" is the same class of operation. A syndicate will buy a property for, say, $100,000. Against this property they issue, say, $50,000 bonds, or frequently even as much as $100,000. This gives them back part or all the money they invested. If the bond issue is $50,000, they issue preferred stock for the balance of the value of the property, namely, $50,000, and over and above this they will issue say, $100,000 of common stock. This is done for two chief reasons, firstly—the promoters are able to sell their certificates at a price often far in advance of their present worth, that being in most cases, so far as the common stock is concerned, nothing. Secondly—it is a means of "covering up" the earnings, so as not to invite competition and, in the case of public utilities, not to arouse a public demand for lower rates or fares. It can be seen at a glance that both these features are inimical to the interests of the workers. In the first place the existence of this water necessitates the payment of dividend or interest on $200,000, whereas it should only be paid on $100,000. The difference comes out of the workers, either in wages or prices. In the case of public utilities, whether it be gas or water works, street railways or railroads, they are called upon to pay rates which give the owners interest on the value of the property and on an equal amount of "water", or paper which has no assets behind it. The baneful feature of the case is that the majority of the public do not realize that when a company so capitalized pays 5% interest and dividend, they are paying 10% on the actual money invested. If they were aware that 10% was being made there would be a more general demand for reduction in rates, but, observing in the stock lists that the company only pays 5%, they remain under the impression that the company is charging them a fair rate.

For the matter of commercial, industrial and financial stability in which all workers are interested, the existence of watered stocks is a constant menace. It is these common stocks, representing no real assets, that are the chief toys of the manipulators. Their first sale makes capitalists out of the promoters, who, entranced at making money so easily, devote themselves eagerly to the manipulation of the stocks of which they alone possess the inside knowledge. In this way the system of stock watering simply creates a constant supply of stock manipulators. These stock manipulations are not only a form of gambling (for those on the outside) in themselves, but they increase the gambling element in every otherwise standard business or industry. We do not refer to the fact of the men engaged in commerce and industry being induced to speculate in stocks, though incidentally it may have that effect, but we refer to the instability that stock fluctuations impart to commerce and industry, making one's business more of a venture than it would be if it were only subject to more stable market conditions. Insofar as stock watering conceals the actual rate of interest earned in any business or enterprise, it helps to remove it from the sphere in which it is subject to the law of supply and demand. It is to some extent, and often to a very great extent, not subject to open competition. We maintain that when an industry is not subject to open competition the working class is suffering an injustice at its hands. It is claimed by promoters and their sympathizers that they are entitled to the profits derived from the sale of their watered shares. It may be true that they are entitled to a handsome profit, but they should be obliged to exercise the same patience as other people in gathering in their profit, and should derive it from the actual operation of the business. It does not make a business produce any more profit because the printing press is being employed to stamp a lot of shares as being worth $100.00 each, when the only value the shares have is what the printing press imparted to them. When a person without financial experience sees $100.00 printed on a share he naturally believes that there are somewhere $100.00 of assets to represent it. On this class of person (and they constitute the great majority) this operation is a fraud.

If no watered shares were issued, the same legitimate profit could be made. The company capitalized at $100,000 of real assets would pay 10% profits, instead of having $200,000 half real assets and half water, paying 5%. In each case the profits are $10,000. If the artful promoter had to wait to get his profits in dividends, it would curb his activity considerably—a very desirable result in the interest of society at large.

AMERICAN BANKING REFORM

THE great interest that is being taken in changing the American banking system is by no means confined to the American people. The financial and commercial world has a practical interest in seeing a system adequate to the requirements established in that vast market. That interest exists not only because of the liquid nature of money, whose currents encircle the globe, but because of the direct interest that many nations have in preventing the periodical disturbances of trade with that market, due at least in great part to the weakness of the American financial system. On account of the intimate financial as well as commercial relations existing with Canada she is probably the most interested of all foreign countries in having stable financial conditions established in the United States.

Taking only the commercial side of the question into account the different countries are interested in the following proportions:

Great Britain and Ireland . .	261
Germany	163
France	115
Cuba	110

Canada	100
Brazil	100
Japan	78
East Indies	72
Italy	47
Belgium	37
China	34
Holland	32
Argentina	29
Switzerland	25
Russia	24
Egypt	21
Spain	19
Chile	19
Turkey	17
Austria	16

The three important improvements to their financial system that Americans are seeking are:

Liquid and concentrated reserves.
Elastic currency.
Freer flow of credit from place to place.

The government forces have practically decided upon the regional bank associations, which, it is thought, will remedy the present difficulty in regard to inelastic and scattered reserves.

That is probably the most important item of the three; but the other two features do not promise the same satisfactory settlement, while both are of tremendous moment.

With regard to currency it has seemed to be the saddling of the currency with the burden of American national credit that has led to its great inelasticity. It is the opinion of many financial experts that the time has arrived to place the national credit on its own bottom, and permit the banks to issue their currency up to the amount of their paid-up capital with some sort of guarantee by the associated banks. Then, instead of the banks having to invest their assets in 2% government bonds in order to secure a like amount of currency, they would be left free to invest their assets in other good securities yielding two or three times as much interest. This would provide an incentive to issue currency that is lacking under the present system.

It is an extremely narrow view that the banks should have to pay for the privilege of issuing their currency, and operates more against the public who demand this than against the banks themselves. When one considers that currency is only 8% of the credit extended by the banks, and when one considers how much the currency facilitates credit, it is not difficult to see the advantage of a free currency to those seeking credit.

After all, the banks are obtaining no great special privilege in being allowed to issue currency without being taxed. The currency is their own promise to pay and is based upon their own assets. Any man is at liberty to set his own note in circulation, for which he may charge 6% or 7% interest. When one makes a draft on another it is setting his debtor's note in circulation in a restricted sense. Some merchants have 75% of their business carried by such means—the banks carry only 8% of theirs on their notes.

As regards the freer flow of credit from place to place, we would point out that that can never be accomplished through the medium of a partnership in the transfers of credit.

The Central Reserve Association, which aimed to accomplish this improvement by making the banks partners in its operations, would have failed miserably of its purpose in this respect, for the simple reason that a bank's share of profits from the partnership arising out of any transfer made on the bank's account would be infinitesimal in comparison to the loss through having to make a loan through a third party. The tendency would have been as it is now to keep the funds where the bank is and obtain the full profit from their employment.

Banks send part of their funds now to New York and other central districts to keep them in available form for their own protection, but that has no incidental benefit to trade, as would be the case if the funds were sent East, West, North or South, wherever they were most wanted.

The central bank and the branch bank systems are held in great disfavor in the United States. Both seem fraught with possibilities inimical to the public interest; and we do not question the people's judgment in thinking so.

But if a system can be devised, preserving the competitive and democratic status, and yet affording the benefits of the branch bank system, surely it would be worth considering. It seems to us that these results could be accomplished by dividing the country into a number of "banking districts" described either by States or by longitudinal and latitudinal lines, and establishing a limited branch bank system, restricted to each institution having only one branch in each district.

A system providing for only two districts, and each institution being allowed only one office in each district, would afford very much more elasticity than at present; while if even 46 branches (one for each State) were permitted, there would not be even an approach to a condition of monopoly, which is said to be the undesirable feature of the ordinary branch system which it is sought to avoid.

Assuming there were as now 7,200 national bank offices in the United States, and assuming that they, through the process of amalgamation, all adopted the branch system, and that each had one branch in each district, the banking system would be composed as follows:–

2 districts would necessitate 3,600 banks, each with 2 offices.

20 districts would necessitate 360 banks, each with 20 offices.

46 districts would necessitate 148 banks, each with 46 offices.

If the country were divided into districts of 5 degrees of longitude and 5 degrees of latitude it would produce about 43 districts, or very nearly the same as making each State a district.

This district plan would have the effect of directly joining the resources of each district with all other districts, through numerous independent channels. Money would flow more readily to the places where it was wanted, for the reason that it would be carried there without the introduction of another financial medium. The bank sending the funds would reap the full profit of their employment through their own office at the place of destination: hence a great incentive to send the funds where they would be most needed.

In the ordinary branch system, as for instance in Canada, some banks concentrate all their branches in certain provinces or districts, whereas the proposed system necessitates a bank of any importance extending itself so as to join each district with all the others, thus providing the maximum of elasticity.

This system would result in accommodation to the public in more ways than one. There are many places not sufficiently important to warrant the establishment of a fully equipped bank, with president and directors, etc.; whereas they have certain banking requirements for which a small branch would suffice.

Any independent bank, established solely to administer to the wants of such unimportant places, must necessarily be of a weak financial if not weak official structure. The proposed limited branch system would warrant the fixing of a higher minimum capital, and there is no doubt that would be a desideratum. There can be no doubt that a good banking system tends to lower the actual cost of living.